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Development Programme**

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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

Audit reports

Report of the Administrator

The present document contains the comments of the Administrator concerning the interim report of the United Nations Board of Auditors for the year ending 31 December 1990, the first year of the biennium 1990-1991 of the United Nations Development Programme. In particular, it provides further information on follow-up action taken in response to Governing Council decision 91/47 of 21 June 1991 and General Assembly resolution 46/183 of 20 December 1991.

Document DP/1992/42 summarizes the action taken by the executing agencies in response to the significant observations of their external auditors on their 1990 accounts relating to funds allocated to them by the United Nations Development Programme. Document DP/1992/42/Add.1 contains the audited reports of the executing agencies as at 31 December 1990.

INTRODUCTION

1. In accordance with previous Governing Council decisions and General Assembly resolution 46/183 of 20 December 1991, the Administrator is bringing to the attention of the Council the interim audit report of the Board of Auditors on the United Nations Development Programme for the first year of the biennium 1990-1991 (A/46/5/Add.1), the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) thereon (A/46/510), the related comments made in the Fifth Committee and General Assembly resolution 46/183 on financial reports and audited financial statements, and reports of the Board of Auditors.

2. The external audit reports and audited accounts of executing agencies relating to funds allocated to them by the United Nations Development Programme (UNDP) as at 31 December 1990, submitted in accordance with regulation 17.1 of the UNDP Financial Regulations, are contained in document DP/1992/42/Add.1, together with a summary of the status of funds submitted by all executing agencies as at 31 December 1990. Document DP/1992/42 summarizes significant observations of the external auditors of the executing agencies on their 1990 accounts relating to funds allocated to them by UNDP.

I. UNITED NATIONS DEVELOPMENT PROGRAMME

3. The Administrator provided a detailed written response to all the observations made by the United Nations Board of Auditors in his report. Those comments are included in the report of the Board of Auditors.

4. The audit report included findings in the areas of agency accountability, the Office for Project Services (OPS) and the Economists for Africa Programme. With respect to agency accountability, the auditors drew attention to the fact that several agencies had not completed Standard Basic Executing Agency Agreements (SBEEA) with UNDP, did not contain sufficient information on whether UNDP funds were spent with maximum efficiency and effectiveness and that all pertinent findings were not submitted to UNDP and its external auditor. Comments on OPS focused on project budget management, financial completion of projects, improved project management, the workload of project management officers, procurement services on behalf of Governments, delegation of procurement services and consultants' contracts. The comments on the Economists Programme for Africa addressed the concept, contracting procedures, career development and placement in the office structure, the placement of economists and the use of junior economists.

5. Owing to the length of the audit report and the extensive response by the Administrator, no attempt will be made in the present document to summarize their contents. The document highlights, however, in tabular format, those observations which relate to matters which may be of particular concern to the Governing Council and which the Council will no doubt wish to take into account in its future consideration of the subjects concerned. It also

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summarizes the results of the review of the audit report by ACABQ; refers to discussions of matters arising from the audit at the Panel of Auditors and at the Consultative Committee on Administrative Questions (Finance and Budgetary Questions) (CCAQ (FB)) as appropriate; indicates significant actions subsequently taken by the Administrator in response to the reports and the relevant paragraphs of General Assembly resolution 46/183 that have a direct impact on UNDP; and the proposed timetable for implementation. It does not reflect comments of the Fifth Committee in that the General Assembly resolution broadly endorsed all ACABQ recommendations and observations and approved all recommendations and observations of the Board of Auditors in which ACABQ concurred. Information on further follow-up which may be available by May 1992 will be reported orally to the Council at its thirty-ninth session.

6. In paragraph 12 of its resolution 46/183, the General Assembly specifically urged UNDP expeditiously to conclude standard basic executing agencies agreements and ensure that these agreements, including existing agreements, provide for appropriate accountability with regard to Programme funds. In paragraph 5 of the resolution, the General Assembly requested a timetable for remedial action on the recommendations by the Board of Auditors and paragraph 17 (a) urged submission of detailed progress reports on steps taken to implement previous recommendations of the Board of Auditors. It also urged in paragraph 17 executive heads: to report to the General Assembly at its forty-seventh session, on the implementation of effective measures to facilitate reporting by staff members on a confidential basis any inappropriate use of resources; to implement stringent inventory controls on non-expendable property, to institute without delay more effective control on the payment of all allowances and benefits to staff members. In paragraph 23, the General Assembly requested executive heads to ensure that expenditures do not exceed the level of funds provided under allotments.

7. The Administrator's response to the comment on reporting by staff members was provided by the Assistant Administrator, Bureau of Finance and Administration (BFA) to the Governing Council at its thirty-eighth session (1991). He stated at that time that a circular was issued in 1990 citing the procedures to be followed regarding personal responsibility and liability. In that circular, staff were asked to inform him of instances where they were instructed to take an action contrary to existing Financial Regulations and Rules. He confirmed his intention to ensure, in close cooperation with the Division of Personnel (DOP), that such action does not impact on the staff member's career potential within the organization. With respect to the implementation of more effective control on the payment of allowances and benefits to staff, the Administrator can report that the whole procedure relating to the payment of income tax reimbursements has been revised by the United Nations, which processes the UNDP payroll as a service to UNDP, including the introduction of a confirmation process developed in cooperation with the Internal Revenue Service of the United States Government. Similar verification of other entitlements has also been introduced. Under this arrangement, irregularities are investigated by UNDP and appropriate recovery action taken. The Administrator is pleased to note that no irregularities have been detected to date.

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8. With respect to the implementation of stringent inventory controls, in 1990 computer software was developed which allows field offices to maintain inventory of non-expendable properties on a computer. This was introduced to all field offices in December 1990. A software module has been developed which accepts this data electronically to provide country, regional and global reports. For headquarters, a software system was procured in December 1991 which is expected to be implemented in the first quarter of 1992. The Administrator is fully committed to ensuring that expenditures do not exceed the level of funds provided under allotments. This is an ongoing effort which is an integral part of the budget monitoring and control function.

SUMMARY OF AUDIT COMMENTS

Financial report and audited statements for the year ended 31 December 1990 (document A/46/5/Add.1)	Report of the Advisory Committee on Administrative and Budgetary Questions (document A/46/510)	UNDP response
A. <u>Current recommendations</u>		
1. <u>Agency accountability</u>		
[Paragraphs 25 and 33 of the above report]		
The Board of Auditors have stated that in accordance with financial regulation 8.10 (n), UNDP should enter into agreements with executing agencies specifying the general terms and conditions which are to govern UNDP assistance for which that organization has been designated as an executing agency.	The Committee fully endorsed the Board's view that the concept of full accountability can be maintained only if the executing agencies themselves are held accountable. In view of the fact that the Administrator of UNDP bears primary responsibility for the funds, it is imperative that binding agreements be signed with the executing agencies.	Of the three agencies that had not yet signed the Standard Basic Executing Agency Agreements (SBEAA), negotiations with WHO are proceeding and signature in 1992 is expected. It is expected that UNDP will finalize SBEAAs with ILO and FAO. Expected date of implementation: ILO, FAO: to be determined following discussions with agencies.
The Board of Auditors recommended that the respective provisions of the SBEAA be revised so that:		
(a) The mandate of the agency's external auditors includes an assessment of the efficiency and effectiveness of project implementation;	The Committee expressed concern that the audited financial statements did not convey sufficient information on whether the funds were spent with maximum efficiency and effectiveness.	This comment will be discussed with the agencies in CCAQ (FB) in March 1992. UNDP believes this issue could be addressed by means of a modification to existing SBEAAs. UNDP will report orally to the Governing Council should any significant problems arise in this respect.

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(b) In addition to the official
audit report, all pertinent audit
findings are submitted to UNDP and its
external auditors.

UNDP has discussed this matter with the
United Nations Office of Legal Affairs.
In its opinion, a sufficient basis exists
within the SBEAA for UNDP to request such
audit reports from executing agencies.
The matter will be discussed in CCAQ (FB)
in March 1992.

Expected date of implementation to be
determined at CCAQ (FB) in March 1992.

2. Office for Project Services

[Paragraphs 39, 43, 48, 61, 67 and 70
of the above report]

The Board of Auditors commented on OPS
operations in a number of areas:

(a) A serious deficiency exists
in project planning and/or project
implementation;

(b) Certain irregularities occur
in project management and deficiencies
in the timely execution of projects,
including the completion of closing
projects;

The Committee wholly agrees on the
need for OPS to control tightly the
number of new projects accepted in
view of limited capabilities.

The Committee also agrees that this
calls for a reliable mechanism for
identifying suitable projects
together with increased administrative
efficiency by streamlining procedures,
optimizing the distribution of
workload and fully utilizing
information systems.

The Committee believed that UNDP
should give urgent attention to the
Board's recommendation and provide a
report on implementation in the
course of the next audit cycle.

1. Project budget management:

(a) Several of the reasons provided
by the Administrator that have led to
overexpenditures in some of the project
budgets continue to exist and cannot be
addressed unilaterally by OPS. However,
efforts have been made and will continue
to be made to avoid overexpenditures.
Budget revision proposals are being
submitted to the funding organizations
in a systematic manner and processed as
frequently as necessary;

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(c) Electronic data processing
and other devices that could facilitate
the monitoring functions have not been
implemented or are inadequate;

(d) Uncompromising efforts are
needed to control tightly the number of
new projects in view of limited
capacities and disparate distribution
of the workload;

(b) The inadequacies of the available
information systems, another reason for the
weaknesses noted in project budget
management, are being addressed. See
further comments below under "Technical
devices for improved project management";

(c) The budgets of new projects are
being more closely scrutinized by the
Project Acceptance Committee and revisions
are being proposed that reflect expected
delivery of inputs as realistically as
possible.

2. Financial completion of projects:

(a) A systematic effort has also
been made to prune the overall portfolio
of many projects that are operationally
completed but not yet financially closed.
In addition to the 306 project budgets for
which final budget revisions were
processed in 1990, a total of 279 were
financially closed in 1991 and a further
326 projects will be closed within the
next two months. These efforts will
continue throughout 1992 and in future
years;

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(b) Following the Auditors comments, the Project Acceptance Committee screens out projects that by their nature are not suited to be implemented and completed in a given amount of time, as specified in the Programme and Projects Manual (PPM). However, the duration of some projects may exceed the originally expected duration owing to factors beyond OPS control, such as natural or man-made disasters and other obstacles.

3. Technical devices for improved project management:

(a) The same consultants who performed the integrated administrative services (IAS) study for UNDP, were retained to do a similar study on OPS information systems and to make recommendations for improvements that could be achieved in the short term (as an interim step), pending the full implementation of IAS. Based on the consultant's report, a plan was submitted by OPS and endorsed by the Administrator, Additional funding requirements for this plan are included in the budget revision for the current biennium. The plan calls for three main systems: personnel, procurement, expected to be ready in 1992, and a budget monitoring system expected to be operational in 1993. In addition, OPS

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		ability to manage budgets effectively will be favourably influenced by UNDP overall efforts to improve the quality and timeliness of its financial and administrative information systems, especially those affecting field offices;
(e) Reliable contractual links should be established with both the donor of funds and the recipient of the services rendered to ensure no loss to UNDP;	The Committee also agreed with the Board's opinion that preliminary understandings do not provide a sound legal basis for activities.	(b) A review of the OPS Operations Manual was started in 1991 and a revised manual will be issued by mid-1992. In the meantime, a number of user guides were issued in 1991, explaining UNDP/OPS procedures related to personnel, procurement, contracts and fellowships, the four major components of project budgets. These guides constitute the basic material for chapters of the new manual.
(f) Purchase orders were processed by headquarters staff although the authority for local purchase of project equipment had been delegated to the field some years ago;		4. <u>Workload of project management officers and the role of the Project Acceptance Committee:</u>
(g) The Board found extensive use of <u>ex-post facto</u> contracts.		(a) Division Chiefs no longer handle projects and can thus concentrate on their prime function, i.e., managing the Division;
		(b) A concentrated effort will be made in 1992 to refine the existing workload management system so that it can be used by managers to closely monitor the distribution of work among project management officers.

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5. Procurement services on behalf of
Governments:

The comments apply to the Japanese Procurement Programme, which is carried out by OPS under management service agreements (MSA) signed with the recipient Governments. The proposal to have letters of credit provided by the recipient Governments for each MSA, while originally agreed to in principle, was subsequently rejected as being too costly for the recipient Government. However, OPS still maintains that the current procedures, including full compliance with UNDP Financial Regulations and Rules to issue purchase orders only if their value is fully covered by funds already in the UNDP bank account, provide sufficient safeguards and de facto eliminates any possibility of UNDP incurring any losses under this programme.

6. Delegation of procurement of project
equipment:

Local purchase order and field purchase order forms have been developed for use by authorized UNDP/OPS personnel in the field. A circular describing the new procedure, under which such field personnel will be authorized to effect direct procurement up to \$20,000, is being issued in 1992.

7. Consultants contracts:

(a) In June 1991, OPS issued a circular informing all its partners that effective immediately, it would discontinue processing any ex-post-facto requests for contracts, and provided specific guidelines on how to proceed under various circumstances, including emergencies. Further to the OPS circular, UNDP issued in September 1991 another circular to all staff members, in which the same issue was discussed, warning that all such cases would be subject to strict scrutiny and investigation, including referral to the internal auditors and possible application of the provisions in the UNDP Financial Regulations and Rules relating to determining personal responsibility and financial liability;

(b) Subsequent to the issuance of the above circulars, the number of ex-post-facto contracts has been reduced drastically, to negligible levels. The reasons for the few existing cases can be explained satisfactorily;

(c) The arrangement made with the Pension Fund to obtain confirmation of a candidate's pension status before a contract is issued to retired staff

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members is working satisfactorily.
However, no centralized system has been
established as yet.

3. Economist Programme for Africa

The Board believes that the Economist
Programme for Africa, as a new concept,
was deficient in its testing and
possibly implemented in a manner which
was not the most economical or
efficient way.

The Board questioned how the Economists
would fit into the field structure.

The Board was also concerned about
discrepancies in information which
exist between organizational units.

The Board also felt that the concept
of using Junior Professional Officers
as junior economists has not proved
successful as yet.

The Committee believes that UNDP
should give serious attention to the
auditors' recommendations, especially
in considering any future expansion
of this programme.

Those issues of an administrative nature
have been addressed by the Division of
Personnel. The issue pertaining to
policy and substantive aspects of the
economists programme is being independently
evaluated by the Central Evaluation Office
(CEO). The terms of reference of the
exercise and selection of the countries
for the field mission phase was determined
in July 1991. This was followed by a desk
review in November/December 1991, entailing
an analysis of returns of questionnaires
completed by the Economists and Resident
Representatives on the relevance and
performance of the Economists. The
leadership and composition of the field
mission teams is currently being
determined by the Regional Bureau for
Africa (RBA) and CEO, with a view to
mounting the second and final phase of the
evaluation exercise in the second quarter
of 1992. UNDP will provide a status
report on the evaluation to the Governing
Council at its thirty-ninth session. The
final report will be available in the
third quarter of 1992.

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B. Previous audit recommendations

The Board of Auditors also drew attention to previous audit comments which, in its opinion, had not been implemented. These included:

(a) Further efforts needed to obtain audited statements of UNDP expenditures in time for issuance of an audit opinion on the financial statements of UNDP;

The Committee trusts that the new procedure of the biennial auditing of UNDP accounts will address the issue of late submission of audited accounts from the executing agencies.

The Administrator has stated that the change to a biennial audit will not, in and of itself, resolve the problem. UNDP is unable to resolve the issue by itself. UNDP has regularly addressed the problem with the executing agencies in various forums, requesting that the audit comment be addressed. The short-time frame provided for closure of the accounts and audit, combined with the fact that existing systems are inadequate to cope, make it highly unlikely that the qualification will be removed in the next few years. It is important to note, however, that at no time has there been a significant change between the agency accounts as submitted for audit and the final audited statements.

(b) Guidelines ensuring correct delineation between programme and operating expenditures should be issued;

In his revised budget estimates for 1990-1991 and budget estimates for 1992-1993 (DP/1991/49 (vol. I) and Corr.1 and DP/1991/49 (vol. II)) the Administrator proposed a modality to provide a clearer delineation between administrative, programme support and

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(c) More detailed and clearer instructions should be issued regarding personal responsibility and financial liability;	programme costs in line with General Assembly resolution 45/235 of 21 December 1990. The Governing Council welcomed this proposal as a first step and requested the Administrator to develop more specific criteria for the allocation of posts to programme support and development activities and to report thereon to the Council in the context of the 1994-1995 budget estimates.	The expected date of submission of this proposal is June 1993.
(d) General deterrence in the prevention of fraud should be given more consideration;	See paragraph 7. This has been implemented.	The Administrator believes that a clear, objective and transparent application of procedures assigning responsibility and financial liability to staff will provide the level of deterrence in the prevention of fraud requested by the Board of Auditors. Procedures have been established in this regard and several items are under review by internal committees that have been formed to address losses incurred. UNDP will report on the impact of these new procedures to the Board of Auditors.
/...		This recommendation has been implemented.

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(e) The impact on the
administrative workload and efficiency
of management should be taken into
account before establishing new trust
funds or subtrust funds;

UNDP believes that the incremental
workload related to the handling of trust
funds is adequately covered by the
extrabudgetary funds provided.

The feasibility study on the further
computerization of trust fund activities
was not completed in 1991 as anticipated.
This study was merged with the rewrite
required of systems related to the changes
in support costs approved by the Governing
Council at its thirty-eighth session
(1991). This system is expected to be
operational in 1992.

(f) An up-to-date strategy for
temporary employment needed to be
developed;

A UNDP working group has reviewed this
issue and has arrived at a common
understanding with other United Nations
specialized agencies. A draft contract
has been prepared for discussion and
conditions for its applicability further
developed. This is expected to be
completed by mid-1992.

(g) The two-year project
budgeting should be more fully tested
before final and full implementation;

During 1986-1987, the resource management
techniques of UNDP were substantially
revised to improve delivery and ensure
predictability and stability. The
two-year project budget concept was part
of this package. A review in 1990
revealed good results but highlighted the
fact that agencies, not UNDP field
offices, were the primary users of this
technique since two-year budgeting

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(h) The accounting policy regarding unliquidated obligations should be clarified.		responds to the need for operational flexibility for the agencies. All major agencies have confirmed the importance and usefulness of the concept and have urged that the technique not be discontinued. The expected date of implementation is June 1993. Following in-depth discussion of this issue, CCAQ (FB) decided that the executing agencies should advise UNDP of ways in which the accounts closure instruction might be clarified. UNDP has to date not received any suggestions from the agencies. The examples provided by the Board of Auditors reflected errors of application, not deficiencies in definition. The matter will be discussed further in March 1992 by CCAQ (FB) and if problems are identified at that time, they will be reported orally to the Governing Council.